

FINANCIAL STATEMENTS AND REPORT OF  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
NEWMAN MEMORIAL COUNTY HOSPITAL  
D/B/A NEWMAN REGIONAL HEALTH  
DECEMBER 31, 2014 AND 2013

## CONTENTS

	Page
MANAGEMENT'S DISCUSSION AND ANALYSIS	1
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	6
FINANCIAL STATEMENTS	
STATEMENTS OF NET POSITION	8
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	9
STATEMENTS OF CASH FLOWS	10
NOTES TO FINANCIAL STATEMENTS	12

NEWMAN MEMORIAL COUNTY HOSPITAL  
D/B/A NEWMAN REGIONAL HEALTH  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years ended December 31, 2014 and 2013

Our discussion and analysis of the financial performance of Newman Regional Health provides a narrative overview of the Hospital's financial activities for the years ended December 31, 2014 and 2013. Please read it in conjunction with the accompanying financial statements.

Financial highlights

The Hospital's net position decreased by \$171,177 or .6 percent in 2014 as compared to a decrease of \$3,160,098 or 10.3 percent in 2013.

The Hospital reported an operating loss of \$903,209 in 2014. This compares to an operating loss of \$4,601,252 and \$3,382,609 in 2013 and 2012, respectively.

Using these financial statements

The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by or for the benefit of the Hospital, and resources restricted for specific operating purposes by contributors, grantors, and indenture agreements.

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources including all restricted and unrestricted assets and all liabilities using the accrual basis of accounting in a way that helps answer this question. Revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. The Hospital's net position - the difference between assets and liabilities may be thought of as one way to measure its financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

NEWMAN MEMORIAL COUNTY HOSPITAL  
D/B/A NEWMAN REGIONAL HEALTH  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
Years ended December 31, 2014 and 2013

Assets, liabilities, and net position

The Hospital's statements of net position as of the end of each of the last three years are summarized as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Assets</b>			
Current assets	\$19,028,904	\$16,947,564	\$16,009,149
Assets limited as to use	2,216,620	4,895,630	7,447,164
Capital assets, net	22,222,486	25,222,810	23,338,210
Other assets	<u>290,056</u>	<u>226,242</u>	<u>204,930</u>
Total assets	<u>43,758,066</u>	<u>47,292,246</u>	<u>46,999,453</u>
<b>Liabilities</b>			
Current liabilities	6,536,959	8,305,183	6,166,203
Long-term debt obligations	<u>9,861,576</u>	<u>11,456,355</u>	<u>10,142,444</u>
Total liabilities	<u>16,398,535</u>	<u>19,761,538</u>	<u>16,308,647</u>
Net position	<u>\$27,359,531</u>	<u>\$27,530,708</u>	<u>\$30,690,806</u>

While our statement of net position was negatively impacted by current year operations, we continue to maintain sufficient liquidity to operate our Hospital. Our liquidity position when measured by the ratio of current assets to current liabilities was 2.9 in 2014, 2.0 in 2013, and 2.6 in 2012. Current assets increased by \$2,081,340 in 2014 and increased by \$938,415 in 2013. Significant components of current assets are cash and cash equivalents and patient accounts receivable. Cash and cash equivalents increased from \$8.42 million in 2013 to \$9.47 million in 2014. The increase in cash was partially due to the use of assets limited as to use as discussed below. The level of patient accounts receivable is impacted by patient revenues generated during the last two months of the year as well as our efficiency in collecting charges. The number of days net revenue invested in net accounts receivable was 50 days in 2014, 51 days in 2013, and 44 days in 2012. Assets limited as to use declined in the current year as we began utilizing these funds to make equipment purchases and principal payments on long-term debt. The other notable change for the periods presented above is the decrease in capital assets, net. This decrease is a result of depreciation expense significantly exceeding capital acquisitions during 2014.

Total liabilities decreased in 2014 by \$3,363,003. Approximately \$1,413,000 of this is due to the Hospital's decrease in third-party payor settlements and approximately \$1,595,000 resulted from payments on long-term debt. The majority of the decrease in third-party payor settlements resulted from the amounts owed for cost reporting years 2010, 2011, 2012 being paid in the current year.



NEWMAN MEMORIAL COUNTY HOSPITAL  
D/B/A NEWMAN REGIONAL HEALTH  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
Years ended December 31, 2014 and 2013

Operating results and changes in net position

In 2014, the Hospital's net position declined by \$171,177, or .6 percent as shown in the following table. This decrease is made up of very different components. The Hospital's operating results and changes in net position for each of the last three years are summarized as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues			
Net patient service revenue	\$ 52,632,246	\$ 45,123,250	\$ 46,729,872
Electronic health records incentive revenue	97,762	1,676,505	
Other operating revenue	<u>1,765,901</u>	<u>1,457,616</u>	<u>1,585,394</u>
Total operating revenue	<u>54,495,909</u>	<u>48,257,371</u>	<u>48,315,266</u>
Operating expenses			
Salaries and wages	24,292,935	23,460,103	23,130,872
Employee benefits	6,429,993	6,999,465	8,021,262
Supplies and other expenses	20,771,636	18,941,210	17,393,194
Depreciation and amortization	<u>3,904,554</u>	<u>3,457,845</u>	<u>3,152,547</u>
Total operating expenses	<u>55,399,118</u>	<u>52,858,623</u>	<u>51,697,875</u>
Operating loss	(903,209)	(4,601,252)	(3,382,609)
Interest expense	(387,282)	(374,025)	(375,686)
Property taxes	425,000	425,000	441,166
Other nonoperating revenues (expenses)	51,736	206,618	219,758
Capital grants and contributions	642,578	1,183,561	588,304
Transfers	<u>                    </u>	<u>                    </u>	<u>(25,000)</u>
Decrease in net position	<u>\$ (171,177)</u>	<u>\$ (3,160,098)</u>	<u>\$ (2,534,067)</u>

The first component of the overall change in the Hospital's net position is the operating loss - generally, the difference between operating revenues and expenses incurred to perform those services. The Hospital reported a decrease in the operating loss of \$3,698,043 in 2014 as compared with a \$1,218,643 increase in 2013 as compared with 2012. The operating performance of our Hospital is influenced by utilization, availability of physician services, patient access to health insurance coverage, and third-party reimbursement rates.

The Hospital received approval from Medicare to be treated as a critical access hospital (CAH) beginning on December 16, 2013. This results in the Hospital being reimbursed based upon costs for inpatient acute, swing-bed, and outpatient services. Prior to December 16, 2013, the Hospital was prospectively reimbursed for these services. Becoming a CAH resulted in a significant increase in net patient service revenue. The Hospital's net revenues were also impacted by increased employed physician revenues and an increase in cardiac care revenues which is a new service started in 2013. The Medicare and Medicaid programs have also provided incentive payments to hospitals for the implementation of

NEWMAN MEMORIAL COUNTY HOSPITAL  
D/B/A NEWMAN REGIONAL HEALTH  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
Years ended December 31, 2014 and 2013

electronic health record systems. In 2014 and 2013, the Hospital recognized approximately \$100,000 and \$1,700,000 from electronic health record incentive revenue.

The following table displays the number of inpatient days of service provided by the Hospital during the past four years and shows the continual decline in inpatient services:

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Acute care days	5,193	5,387	6,833	8,382
ICU days	448	797	447	514
Skilled days	973	1,343	1,372	1,443
Rehab days	1,078	1,042	1,137	1,226
Nursery days	<u>887</u>	<u>881</u>	<u>891</u>	<u>953</u>
Total inpatient days	<u>8,579</u>	<u>9,450</u>	<u>10,680</u>	<u>12,518</u>

Inpatient days have declined by 46 percent from 2011 to 2014. The rate of decline slowed in 2014 and has been seen nationally on a more moderate level with more emphasis on treating patients in an outpatient setting. This trend also precipitated our election to be treated as a CAH. This change resulted in a limitation to the number of inpatient, swing-bed, or ICU inpatients admitted at any one point in time to 25.

We have been active in recruiting physicians to our community and have devoted resources to medical staff relations to help stabilize inpatient volumes. Over the past several years, we have employed select physician practice groups that we feel are necessary to ensure that a full complement of services are available in our community.

The change in operating revenues from year to year is also impacted by the amount of payments received from the State of Kansas Medicaid disproportionate share hospital (DSH) program. During 2014, 2013, and 2012, the Hospital qualified for Medicaid DSH payments in the amounts of \$1,258,005, \$1,419,782, and \$2,464,145. Eligibility for these payments is determined annually and is based upon numerous factors including uncompensated care cost from providing services to the uninsured and Medicaid beneficiaries as compared with other qualifying hospital providers. These funds are essential to offsetting a portion of the loss from treating uninsured and underinsured patients. We anticipate that these revenues will decline in the future due to improved hospital operations and by mandates from Congress to reduce the payments the federal government is allocating to the DSH program.

Another factor affecting net patient service revenue is the amount of care provided by the Hospital for which no payment is received or expected to be received. Understanding our role as a community member, the Hospital has a policy that automatically provides a 20-percent discount to all uninsured patients. The percentage of gross charges that are written off annually due to uninsured discounts, charity care discounts, and bad debts equaled 6.0 percent in 2014. This compares to 5.9 percent in 2013 and 6.6 percent in 2012. Total discounts granted to uninsured or charity care patients equaled \$3,059,571 in 2014 as compared to \$2,715,598 in 2013 and \$3,797,783 in 2012.

NEWMAN MEMORIAL COUNTY HOSPITAL  
D/B/A NEWMAN REGIONAL HEALTH  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
Years ended December 31, 2014 and 2013

Salaries and benefits are significant components of operations. Total salaries and wages increased by 3.6 percent in 2014, 1.4 percent in 2013, and by 3.6 percent in 2012. The increase in salaries relates primarily to changes in employment from offering new services such as the cardiology services. The Hospital reduced salary expenses related to inpatient nursing areas by approximately \$350,000 in 2014 and \$665,000 in 2013.

Employee benefits expense decreased by 8.1 percent in 2014, decreased by 12.7 percent in 2013, and increased by 23.8 percent in 2012. When measured as a percent of total salaries, these costs represent 26.4, 29.8, and 34.7 percent of total salaries in 2014, 2013, and 2012. Health insurance decreased approximately \$640,000 in 2014 and \$1,200,000 in 2013 as compared to prior years. We continue to experience an increase in benefit costs for our contributions to KPERS. Total expense increased by approximately \$258,000, or 14 percent in 2014 as compared to 2013 and by \$111,000, or 6 percent in 2013 as compared to 2012.

Supplies and other expenses increased by \$1,830,426 or 9.7 percent in 2014, increased by \$1,548,016 or 8.9 percent in 2013, and decreased by \$257,931 or 1.5 percent in 2012. While we have experienced normal inflationary increases in the cost of goods and services each year, and have been very focused on making operational changes to reduce our costs, we have reduced administrative and general overhead expenses by approximately \$650,000 in 2014 as compared with 2013. This decrease in 2014 was offset by increases resulting from increased outpatient volumes. Some specific increases in 2014 were related to \$663,000 of costs associated with providing cardiac catheterization lab services for a full year in 2014 and a \$595,000 increase related to increased therapy services provided in 2014.

Depreciation and amortization expenses increased \$446,709 in 2014, increased by \$305,298 in 2013, and decreased by \$11,901 in 2012. The expense increased in 2014 and 2013 due to significant capital acquisitions in 2013 as compared to 2012 and 2011.

This financial report is designed to provide a general overview of the Hospital's finances and to discuss the significant changes in our financial statements. If you have any questions about the report or need additional financial information, contact the Administration Office at Newman Regional Health.



Certified Public Accountants  
and Management Consultants

Heather R. Eichen, CPA  
Brian J. Florea, CPA  
John R. Helms, CPA  
Eric L. Otting, CPA

Darrell D. Loyd, CPA  
Jere Noe, CPA  
John E. Wendling, CPA  
Barry W. Boyles, CPA  
Adam C. Crouch, CPA  
Ashley R. Davis, CPA

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees  
Newman Memorial County Hospital

We have audited the accompanying financial statements of the business-type activity and the aggregate discretely presented component units of Newman Memorial County Hospital d/b/a Newman Regional Health (the Hospital), a component unit of Lyon County, Kansas, as of and for the years ended December 31, 2014 and 2013, which collectively comprise the Hospital's financial statements as listed in the table of contents, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activity and discretely presented component units of Newman Memorial County Hospital d/b/a Newman Regional Health as of December 31, 2014 and 2013, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other-Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 1 through 5 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Wendling Noel Nelson & Johnson 22C*

Topeka, Kansas  
April 8, 2015

## FINANCIAL STATEMENTS



NEWMAN MEMORIAL COUNTY HOSPITAL  
D/B/A NEWMAN REGIONAL HEALTH  
STATEMENTS OF NET POSITION  
December 31,

	ASSETS			
	2014		2013	
	<u>Hospital</u>	<u>Component units</u>	<u>Hospital</u>	<u>Component units</u>
CURRENT ASSETS				
Cash and cash equivalents	\$ 9,470,919	\$ 83,661	\$ 8,415,309	\$ 338,408
Short-term investments		4,879,197		4,523,516
Assets limited as to use	155,257		123,280	
Patient accounts receivable, net of estimated uncollectibles of \$2,350,000 in 2014 and \$2,090,000 in 2013	7,263,499		6,332,548	
Other receivables	42,167	550,000	385,529	554,090
Inventories	1,291,032		1,270,949	
Prepaid expenses	529,479		372,364	
Estimated third-party payor settlements	276,551		47,585	
Total current assets	<u>19,028,904</u>	<u>5,512,858</u>	<u>16,947,564</u>	<u>5,416,014</u>
ASSETS LIMITED AS TO USE				
Internally designated for capital acquisitions	284,978		2,756,647	
Under bond indenture agreements - held by trustee	1,536,899		1,534,022	
By contributors				
For capital acquisition	550,000		668,363	
For scholarships			59,878	
	<u>2,371,877</u>		<u>5,018,910</u>	
Less amounts required to meet current obligations	<u>155,257</u>		<u>123,280</u>	
	<u>2,216,620</u>	<u>-</u>	<u>4,895,630</u>	<u>-</u>
CAPITAL ASSETS, net	<u>22,222,486</u>	<u>23,330</u>	<u>25,222,810</u>	<u>24,348</u>
OTHER RECEIVABLES	<u>290,056</u>		<u>226,242</u>	
	<u>\$ 43,758,066</u>	<u>\$ 5,536,188</u>	<u>\$ 47,292,246</u>	<u>\$ 5,440,362</u>

The accompanying notes are an integral part of these statements.

# LIABILITIES AND NET POSITION

	2014		2013	
	<u>Hospital</u>	<u>Component units</u>	<u>Hospital</u>	<u>Component units</u>
CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 2,242,658	\$ 565,168	\$ 1,441,189	\$ 657,396
Accrued salaries and payroll taxes	326,071		1,224,341	
Interest payable	24,779		27,175	
Current maturities of long-term debt	1,591,216		1,551,074	
Accrued vacation and other employee benefits	1,670,100		1,827,719	
Accrued health insurance claims	269,000		415,000	
Estimated liability for receivables sold with recourse	92,000		84,000	
Estimated third-party payor settlements	321,135		1,734,685	
Total current liabilities	<u>6,536,959</u>	<u>565,168</u>	<u>8,305,183</u>	<u>657,396</u>
LONG-TERM DEBT, net of current maturities				
	<u>9,861,576</u>		<u>11,456,355</u>	
Total liabilities	<u>16,398,535</u>	<u>565,168</u>	<u>19,761,538</u>	<u>657,396</u>
NET POSITION				
Invested in capital assets - net of related debt	10,769,694		12,215,381	
Restricted				
For debt service	1,536,899		1,534,022	
For capital acquisition	550,000		668,363	
For specific operating activities	3,820	4,220,867	86,803	4,007,757
Nonexpendable permanent endowments		397,521		393,036
Unrestricted	<u>14,499,118</u>	<u>352,632</u>	<u>13,026,139</u>	<u>382,173</u>
	<u>27,359,531</u>	<u>4,971,020</u>	<u>27,530,708</u>	<u>4,782,966</u>
	<u>\$ 43,758,066</u>	<u>\$ 5,536,188</u>	<u>\$ 47,292,246</u>	<u>\$ 5,440,362</u>



NEWMAN MEMORIAL COUNTY HOSPITAL  
D/B/A NEWMAN REGIONAL HEALTH  
STATEMENTS OF REVENUES, EXPENSES,  
AND CHANGES IN NET POSITION  
Year ended December 31,

	2014		2013	
	<u>Hospital</u>	<u>Component units</u>	<u>Hospital</u>	<u>Component units</u>
Operating revenues				
Net patient service revenue	\$ 52,632,246	\$ -	\$ 45,123,250	\$ -
Electronic health records incentive revenue	97,762		1,676,505	
Other	<u>1,765,901</u>		<u>1,457,616</u>	
Total operating revenues	<u>54,495,909</u>	<u>-</u>	<u>48,257,371</u>	<u>-</u>
Operating expenses				
Salaries and wages	24,292,935		23,460,103	
Employee benefits	6,429,993		6,999,465	
Supplies and other expenses	20,771,636		18,941,210	
Depreciation and amortization	<u>3,904,554</u>		<u>3,457,845</u>	
Total operating expenses	<u>55,399,118</u>	<u>-</u>	<u>52,858,623</u>	<u>-</u>
Operating loss	<u>(903,209)</u>	<u>-</u>	<u>(4,601,252)</u>	<u>-</u>
Nonoperating revenues (expenses)				
Investment income	86,646	284,734	111,536	713,037
Interest expense	(387,282)		(374,025)	
Noncapital grants and contributions	13,895	718,589	94,552	1,304,820
Property taxes	425,000		425,000	
Other	<u>(48,805)</u>	<u>(815,269)</u>	<u>530</u>	<u>(1,392,924)</u>
Total nonoperating revenues (expenses)	<u>89,454</u>	<u>188,054</u>	<u>257,593</u>	<u>624,933</u>
Excess of revenues over expenses (expenses over revenues) before capital grants and contributions	(813,755)	188,054	(4,343,659)	624,933
Capital grants and contributions	<u>642,578</u>		<u>1,183,561</u>	
Increase (decrease) in net position	(171,177)	188,054	(3,160,098)	624,933
Net position at beginning of year	<u>27,530,708</u>	<u>4,782,966</u>	<u>30,690,806</u>	<u>4,158,033</u>
Net position, end of year	<u>\$ 27,359,531</u>	<u>\$ 4,971,020</u>	<u>\$ 27,530,708</u>	<u>\$ 4,782,966</u>

The accompanying notes are an integral part of these statements.

NEWMAN MEMORIAL COUNTY HOSPITAL  
D/B/A NEWMAN REGIONAL HEALTH  
STATEMENTS OF CASH FLOWS  
Year ended December 31,

	2014		2013	
	<u>Hospital</u>	<u>Component units</u>	<u>Hospital</u>	<u>Component units</u>
Cash flows from operating activities				
Receipts from and on behalf of patients	\$ 50,066,779	\$ -	\$ 45,889,920	\$ -
Payments to or on behalf of employees	(31,924,817)		(30,362,846)	
Payments to suppliers	(20,313,016)		(18,942,561)	
Other receipts and payments	<u>2,153,298</u>		<u>2,856,613</u>	
Net cash used by operating activities	<u>(17,756)</u>	<u>-</u>	<u>(558,874)</u>	<u>-</u>
Cash flows from noncapital financing activities				
Noncapital grants and contributions	53,895	722,679	114,552	781,703
Other	<u>37,393</u>	<u>(906,479)</u>	<u>(8,318)</u>	<u>(808,857)</u>
Net cash provided (used) by noncapital financing activities	<u>91,288</u>	<u>(183,800)</u>	<u>106,234</u>	<u>(27,154)</u>
Cash flows from capital and related financing activities				
Property taxes	425,000		442,938	
Purchase of capital assets	(802,580)		(5,345,952)	
Grants and contributions for capital	720,941		555,198	
Proceeds from sale of equipment	27,594		3,258	
Issuance of long-term debt			3,000,000	
Interest paid on capital related debt	(393,013)		(379,663)	
Principal payments on long-term debt	<u>(1,551,302)</u>		<u>(1,348,895)</u>	
Net cash used by capital and related financing activities	<u>(1,573,360)</u>		<u>(3,073,116)</u>	
Cash flows from investing activities				
Change in assets limited as to use	2,490,549		3,139,996	
Change in short-term investments		(373,504)		(168,598)
Interest received	<u>64,889</u>	<u>302,557</u>	<u>136,970</u>	<u>280,888</u>
Net cash provided (used) by investing activities	<u>2,555,438</u>	<u>(70,947)</u>	<u>3,276,966</u>	<u>112,290</u>
Change in cash and cash equivalents	1,055,610	(254,747)	(248,790)	85,136
Cash and cash equivalents at beginning of year	<u>8,415,309</u>	<u>338,408</u>	<u>8,664,099</u>	<u>253,272</u>
Cash and cash equivalents at end of year	<u>\$ 9,470,919</u>	<u>\$ 83,661</u>	<u>\$ 8,415,309</u>	<u>\$ 338,408</u>

The accompanying notes are an integral part of these statements.

NEWMAN MEMORIAL COUNTY HOSPITAL  
D/B/A NEWMAN REGIONAL HEALTH  
STATEMENTS OF CASH FLOWS - CONTINUED  
Year ended December 31,

	2014		2013	
	<u>Hospital</u>	<u>Component units</u>	<u>Hospital</u>	<u>Component units</u>
Reconciliation of operating loss to net cash used by operating activities				
Operating loss	\$ (903,209)	\$ -	\$ (4,601,252)	\$ -
Adjustments to reconcile operating loss to net cash used by operating activities				
Depreciation and amortization	3,904,554		3,457,845	
Provision for bad debts	4,151,801		3,609,642	
Changes in				
Patient accounts receivable	(5,082,752)		(4,325,901)	
Inventories	(20,083)		(227,049)	
Prepaid expenses	(157,115)		(10,414)	
Accounts payable and accrued expenses	(566,071)		332,834	
Estimated third-party payor settlements	(1,642,516)		1,485,929	
Estimated liability for receivables sold	8,000		(3,000)	
Other receivables	289,635		(277,508)	
Net cash used by operating activities	<u>\$ (17,756)</u>	<u>\$ -</u>	<u>\$ (558,874)</u>	<u>\$ -</u>
Supplemental schedule of noncash investing and financing activities				
Net change in unrealized gains and (losses) on investments	\$ (3,556)	\$ 18,845	\$ (12,697)	\$ 430,929

The accompanying notes are an integral part of these statements.

NEWMAN MEMORIAL COUNTY HOSPITAL  
D/B/A NEWMAN REGIONAL HEALTH  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 and 2013

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES

1. Reporting entity

Newman Memorial County Hospital d/b/a Newman Regional Health (the Hospital) is owned by Lyon County (the County), Kansas, and operated by the Board of Trustees of Newman Memorial County Hospital, a nine-member governing board appointed by the governing body of the County. The Hospital, which was organized in 1922, is a not-for-profit general hospital located in Emporia, Kansas. The Hospital can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the County. The Hospital is a component unit of Lyon County. The component units discussed in Note A2 are included in the Hospital's reporting entity because of the significance of their operational relationship with the Hospital.

2. Component units

The financial statements include a discrete presentation of financial data of the Hospital's component units. They are reported in a separate column to emphasize that they are legally separate from the Hospital. The governing bodies of these component units are appointed by the Hospital and can be removed by the Hospital's board at will.

Newman Hospital Regional Health Foundation (the Foundation) is a not-for-profit corporation. The Foundation's purpose is to conduct its operations for the benefit and to carry out the purposes of the Hospital in the betterment and enhancement of the health care services for the citizens of the community. The Hospital is the sole voting member of the Foundation.

The Foundation was the sole voting member of Hand In Hand Homecare and Hospice, Inc. (the Hospice), a not-for-profit member corporation whose operations were transferred to a department of the Hospital on November 1, 2010. The assets held by the Hospice on that date, with the exception of a nominal amount, were transferred to the Foundation and are held for the benefit of Hospice patients. The Hospice was dissolved on December 31, 2013, and its remaining assets were transferred to the Foundation.

Newman Medical Services, Inc. (NMSI), is a not-for profit corporation which was organized to operate a physician clinic. The Hospital is the sole voting member of NMSI.

The component units' financial statements have been reconfigured to allow for side-by-side columnar presentation with the Hospital's financial statements.

3. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

NEWMAN MEMORIAL COUNTY HOSPITAL  
D/B/A NEWMAN REGIONAL HEALTH  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2014 and 2013

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES - Continued

4. Basis of accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

5. Cash and cash equivalents

Cash and cash equivalents include all cash and highly-liquid debt instruments with maturities of three months or less excluding any such amounts included in short-term investments or assets limited as to use.

6. Allowance for doubtful accounts

The Hospital provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Hospital estimates this allowance based on the aging of its accounts receivable and its historical collection experience by type of payor.

7. Property taxes

The County approved a property tax levy for the Hospital to be used for capital acquisitions. The taxes are levied in November of each year with the Hospital receiving funds beginning in January of the following year. The property tax revenue is recognized in full the year following the year the taxes were levied which is the year in which use is first permitted.

8. Inventories

Inventories are stated at the lower of cost or market with cost determined on the first-in, first-out method.

9. Investments and investment income

Investments in debt and equity securities with readily determinable fair values are measured at fair value in the statement of net position. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenue when earned.

10. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes; assets held by a trustee under bond indenture agreements; and assets restricted by donors for capital acquisitions and scholarships.

NEWMAN MEMORIAL COUNTY HOSPITAL  
D/B/A NEWMAN REGIONAL HEALTH  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2014 and 2013

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES - Continued

11. Capital assets

Capital assets, including assets recorded as capital leases and intangible assets, are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets which are substantially in conformity with useful lives established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

12. Cost of borrowing

Interest costs including amortization of bond discount incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

13. Grants and contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

14. Accrued health insurance claims

The Hospital is self-insured for health insurance claims of its employees (Note H). Management estimates the net liability for reported and unreported claims incurred as of the end of each reporting period. The estimate is based on known claims and historical claims experience.

Although management believes the estimate for accrued health insurance claims is reasonable, it is possible that actual incurred claims expense may vary significantly from the estimate included in the accompanying financial statements.

NEWMAN MEMORIAL COUNTY HOSPITAL  
D/B/A NEWMAN REGIONAL HEALTH  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2014 and 2013

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES - Continued

15. Net position

The net position of the Hospital is classified in three components. "Net position invested in capital assets net of related debt" consists of capital assets net of accumulated depreciation and reduced by the current balances of outstanding borrowings used to finance the purchase or construction of those assets. "Restricted net position" is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note D. "Unrestricted net position" is remaining net position that does not meet the definition of "invested in capital assets net of related debt" or "restricted."

16. Operating revenues and expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

17. Income taxes

The Hospital is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

18. Charity care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charity care charges written off and the estimated cost of providing charity care by the Hospital is disclosed in Note B.

19. Subsequent events

The Hospital has evaluated subsequent events through the date of the independent certified public accountants' report, which is the date the financial statements were available to be issued.



NEWMAN MEMORIAL COUNTY HOSPITAL  
D/B/A NEWMAN REGIONAL HEALTH  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2014 and 2013

NOTE B - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. The amounts reported on the statement of net position as estimated third-party payor settlements consist of management's best estimate of the differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - The Hospital received approval from Medicare to be certified as a Critical Access Hospital beginning on December 16, 2013. Inpatient acute, swing-bed, and the majority of outpatient services rendered to Medicare patients after December 15, 2013, were paid under cost reimbursement methodologies. Inpatient rehabilitative, hospice, and physician services are reimbursed based upon prospectively determined rates. For services rendered prior to December 16, 2013, inpatient acute, rehabilitation, and swing-bed care services rendered to Medicare program beneficiaries were paid at prospectively determined rates per discharge or per day. Those rates varied according to patient classification systems that were based on clinical, diagnostic, and other factors. Most services rendered on an outpatient basis were paid at prospectively determined rates based on the patient's ambulatory payment classification.

The Hospital is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare administrative contractor. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2012.

Medicaid - Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. All other services rendered to Medicaid beneficiaries are paid at prospective rates determined on either a per diem or a fee-for-service basis and are not subject to retroactive adjustment. In addition to these payments, the Hospital qualified for Medicaid uncompensated pool payments through December 15, 2013, as well as Medicaid disproportionate share hospital payments, in both years presented.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross-Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.



NEWMAN MEMORIAL COUNTY HOSPITAL  
D/B/A NEWMAN REGIONAL HEALTH  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2014 and 2013

NOTE B - NET PATIENT SERVICE REVENUE - Continued

A summary of Hospital gross and net patient service revenue is as follows:

	<u>2014</u>	<u>2013</u>
Gross patient service revenue	\$ 120,196,811	\$ 107,539,362
Deductions from patient service revenue		
Third-party contractual adjustments	(61,356,890)	(57,912,699)
Medicaid DSH and uncompensated pool payments	1,258,005	1,929,170
Provision for bad debts	(4,151,801)	(3,609,642)
Charity care	(1,700,634)	(1,403,139)
Uninsured discounts	(1,358,937)	(1,312,459)
Other discounts and allowances	(254,308)	(107,343)
Net patient service revenue	<u>\$ 52,632,246</u>	<u>\$ 45,123,250</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 45 percent and 8 percent, respectively, of the Hospital's net patient revenue during 2014 and 40 percent and 11 percent, respectively, of the Hospital's net patient revenue during 2013. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation.

On February 26, 2014, the Hospital was notified by its Medicare Administrative Contractor (MAC) that the Hospital's school of nursing program did not meet the criteria to be treated as a provider operated program. The MAC made this determination in a focus review of the December 31, 2011 cost reporting year. This determination reduced reported net revenues in 2013 by \$748,104.

The Hospital's net patient service revenues are also impacted by denials of claims which are initiated by recovery audit contractors hired by Medicare. Net patient service revenue in 2013 was reduced by \$418,004 for net denials. In 2014, Medicare offered to settle previously denied outstanding claims with hospitals who were in the process of appealing the claim denials. Under this settlement agreement, hospitals received 68 percent of the contested amounts. The Hospital accepted this proposal and agreed to settle all outstanding eligible claims which increased net patient service revenue by \$278,074 in 2014.

The Hospital estimates that the cost of providing charity care, based on overall cost-to-charge ratios obtained from its Medicare cost reports, was \$683,000 and \$527,000 for 2014 and 2013, respectively.

NEWMAN MEMORIAL COUNTY HOSPITAL  
D/B/A NEWMAN REGIONAL HEALTH  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2014 and 2013

NOTE C - ELECTRONIC HEALTH RECORD INCENTIVE REVENUE

The American Recovery and Reinvestment Act of 2009 (ARRA) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health record (EHR) technology. These provisions of ARRA are intended to promote the adoption and meaningful use of interoperable health information technology and qualified EHR technology.

The Hospital recognizes revenue for EHR incentive payments when it has reasonable assurance that it has demonstrated meaningful use of certified EHR technology for the applicable period and complied with the reporting conditions to receive the payment. The demonstration of meaningful use is based upon meeting a series of objectives and varies between hospital facilities and physician practices and between Medicare and Medicaid programs.

Additionally, meeting the objectives in order to demonstrate meaningful use becomes progressively more stringent as its implementation is phased in through stages as outlined by Centers for Medicare & Medicaid Services. The Hospital recognized \$97,762 and \$1,676,505 of revenue for EHR incentive payments during the years ended December 31, 2014 and 2013, respectively

NOTE D - ASSETS LIMITED AS TO USE

Under bond indenture agreements - held by trustee

Assets limited as to use by bond indenture agreements are held by a trustee and are stated at fair value. These assets are related to the revenue bond issue (Note F) and consist of the following:

	<u>2014</u>	<u>2013</u>
Principal and interest sinking fund	\$ 155,257	\$ 123,280
Bond reserve fund	<u>1,381,642</u>	<u>1,410,742</u>
	<u>\$ 1,536,899</u>	<u>\$ 1,534,022</u>

Assets are invested by the trustee as follows:

	<u>2014</u>	<u>2013</u>
Money Market Treasury Fund	\$ 172,390	\$ 153,354
U.S. Government and Agency obligations at fair value	1,360,197	1,372,487
Interest receivable	<u>4,312</u>	<u>8,181</u>
	<u>\$ 1,536,899</u>	<u>\$ 1,534,022</u>

NEWMAN MEMORIAL COUNTY HOSPITAL  
D/B/A NEWMAN REGIONAL HEALTH  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2014 and 2013

NOTE D - ASSETS LIMITED AS TO USE - Continued

Income earned on bond reserve funds may be transferred to the respective principal and interest sinking fund to pay a portion of the interest on the bonds. The bond reserve funds are available for bond principal and interest payments to prevent any default in the payment of principal or interest of the respective bonds or, if not so required, may be used to make the final payments of bond principal and interest.

Internally designated

The Hospital's Board of Trustees has designated certain investments to be used for future capital improvements. These assets, which consist of invested cash and accrued interest, may be used for other purposes by action of the Board of Trustees.

By contributors

These assets include funds received or receivable from contributors that have been specifically designated for use for capital improvements or nursing scholarships.

Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets.

NOTE E - CAPITAL ASSETS - HOSPITAL

	Balance December 31, 2013	Transfers and additions	Retirements	Balance December 31, 2014
Land	\$ 643,513	\$ -	\$ -	\$ 643,513
Land improvements	542,194			542,194
Buildings	35,076,446	93,186	11,552	35,158,080
Medical office building	11,611,344			11,611,344
Fixed equipment	9,506,836	30,746	481	9,537,101
Future expansion property	757,610			757,610
Leasehold improvements	334,235		97,484	236,751
Major movable equipment	24,912,104	812,820	3,696,057	22,028,867
Intangibles	25,000		25,000	
Totals at historical cost	<u>83,409,282</u>	<u>936,752</u>	<u>3,830,574</u>	<u>80,515,460</u>
Less accumulated depreciation and amortization for				
Land improvements	395,974	20,489		416,463
Buildings	24,867,220	1,365,151	1,540	26,230,831
Medical office building	6,443,140	406,047		6,849,187
Fixed equipment	8,061,138	211,119	481	8,271,776
Leasehold improvements	103,603	55,042	65,054	93,591
Major movable equipment	18,584,268	1,846,706	3,645,664	16,785,310
Intangibles	25,000		25,000	
Total accumulated depreciation and amortization	<u>58,480,343</u>	<u>3,904,554</u>	<u>3,737,739</u>	<u>58,647,158</u>
	24,928,939	(2,967,802)	92,835	21,868,302
Projects in progress	<u>293,871</u>	<u>60,313</u>		<u>354,184</u>
Capital assets, net	<u>\$ 25,222,810</u>	<u>\$ (2,907,489)</u>	<u>\$ 92,835</u>	<u>\$ 22,222,486</u>

NEWMAN MEMORIAL COUNTY HOSPITAL  
D/B/A NEWMAN REGIONAL HEALTH  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2014 and 2013

NOTE E - CAPITAL ASSETS - HOSPITAL - Continued

	Balance December 31, 2012	Transfers and additions	Retirements	Balance December 31, 2013
Land	\$ 643,513	\$ -	\$ -	\$ 643,513
Land improvements	542,194			542,194
Buildings	34,378,389	698,057		35,076,446
Medical office building	11,489,456	121,888		11,611,344
Fixed equipment	9,471,233	35,603		9,506,836
Future expansion property	757,610			757,610
Leasehold improvements	256,474	77,761		334,235
Major movable equipment	21,953,606	4,606,795	1,648,297	24,912,104
Intangibles	25,000			25,000
Totals at historical cost	<u>79,517,475</u>	<u>5,540,104</u>	<u>1,648,297</u>	<u>83,409,282</u>
Less accumulated depreciation and amortization for				
Land improvements	374,768	21,206		395,974
Buildings	23,466,313	1,400,907		24,867,220
Medical office building	6,024,160	418,980		6,443,140
Fixed equipment	7,808,567	252,571		8,061,138
Leasehold improvements	45,791	57,812		103,603
Major movable equipment	18,928,974	1,303,591	1,648,297	18,584,268
Intangibles	22,222	2,778		25,000
Total accumulated depreciation and amortization	<u>56,670,795</u>	<u>3,457,845</u>	<u>1,648,297</u>	<u>58,480,343</u>
	22,846,680	2,082,259	-	24,928,939
Projects in progress	<u>491,530</u>	<u>(197,659)</u>	<u>-</u>	<u>293,871</u>
Capital assets, net	<u>\$ 23,338,210</u>	<u>\$ 1,884,600</u>	<u>\$ -</u>	<u>\$ 25,222,810</u>

As of December 31, 2014, the Hospital had an outstanding commitment to purchase a CT scanner for approximately \$610,000.

NEWMAN MEMORIAL COUNTY HOSPITAL  
D/B/A NEWMAN REGIONAL HEALTH  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2014 and 2013

NOTE F - LONG-TERM DEBT

Long-term debt obligations consist of the following:

	<u>2014</u>	<u>2013</u>
Lyon County, Kansas Public Building Commission, Newman Memorial County Hospital Refunding Revenue Bonds, Series 2010-A, issued March 1, 2010, in the original amount of \$14,120,000, 2.50% to 4.00% bonds due serially through December 1, 2021, net of unamortized premium of \$10,347	\$ 8,985,347	\$ 10,138,682
2.50% note payable to bank entered into May 14, 2013, in the original amount of \$3,000,000, payable in equal monthly installments of \$39,018, including interest, through August 14, 2020, collateralized by equipment with an amortized cost of \$1,878,595 at December 31, 2014	<u>2,467,445</u>	<u>2,868,747</u>
	11,452,792	13,007,429
Less current maturities of long-term debt	<u>1,591,216</u>	<u>1,551,074</u>
Long-term debt, net of current maturities	<u>\$ 9,861,576</u>	<u>\$ 11,456,355</u>

The following is a summary of changes in long-term debt:

	<u>Hospital revenue bonds</u>	<u>Notes payable</u>	<u>Total</u>
Outstanding at January 1, 2013	\$ 11,267,445	\$ 92,642	\$ 11,360,087
Long-term debt incurred		3,000,000	3,000,000
Principal payments	(1,125,000)	(223,895)	(1,348,895)
Amortization of premium	<u>(3,763)</u>		<u>(3,763)</u>
Outstanding at December 31, 2013	10,138,682	2,868,747	13,007,429
Principal payments	(1,150,000)	(401,302)	(1,551,302)
Amortization of premium	<u>(3,335)</u>		<u>(3,335)</u>
Outstanding at December 31, 2014	<u>\$ 8,985,347</u>	<u>\$ 2,467,445</u>	<u>\$ 11,452,792</u>

NEWMAN MEMORIAL COUNTY HOSPITAL  
D/B/A NEWMAN REGIONAL HEALTH  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2014 and 2013

NOTE F - LONG-TERM DEBT - Continued

Annual debt service requirements on long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,591,216	\$ 354,348	\$ 1,945,564
2016	1,630,770	312,344	1,943,114
2017	1,681,701	265,113	1,946,814
2018	1,727,772	216,543	1,944,315
2019	1,779,126	164,069	1,943,195
2020 - 2021	<u>3,042,207</u>	<u>161,667</u>	<u>3,203,874</u>
	<u>\$ 11,452,792</u>	<u>\$ 1,474,084</u>	<u>\$ 12,926,876</u>

On March 1, 2010, the Lyon County Public Building Commission issued \$14,120,000 in Revenue Bonds, Series 2010-A, on behalf of the Hospital. The proceeds of the 2010 Bonds used together with other funds were used to refund the Series 2001-A, 2001-B, and 2002-A bonds and to pay costs related to the issuance of the 2010-A bonds.

The Series 2010-A bonds are special obligations of Lyon County Public Building Commission and are payable from the net revenues of the Hospital. The net revenues of the Hospital are irrevocably pledged to the payment of the Series 2010-A bonds and interest thereon.

The indenture agreement for the bonds requires the Hospital to transfer to a trustee, on a monthly basis, specified amounts which, when combined with interest earned on the respective funds held by the trustee, will provide sufficient funds to pay the bond principal and interest on the appropriate due dates. Such amounts were maintained and are included with assets limited as to use in the financial statements. The indenture agreement also includes certain restrictive covenants relating to the acquisition and disposition of property, incurrence of additional indebtedness, and level of fees and rates charged.

NOTE G - DEFINED BENEFIT PENSION PLAN

Plan description. The Hospital participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. Substantially all employees of the Hospital are eligible to participate in KPERS. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas Avenue, Topeka, Kansas 66603-3869) or by calling 1-800-275-5737.

NEWMAN MEMORIAL COUNTY HOSPITAL  
D/B/A NEWMAN REGIONAL HEALTH  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2014 and 2013

NOTE G - DEFINED BENEFIT PENSION PLAN - Continued

Funding policy. K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 5 percent of covered salary for an employee first employed before July 1, 2009. K.S.A. 74-49,210 establishes the KPERS member-employee contribution rate at 6 percent of covered salary for an employee first employed on or after July 1, 2009. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers.

The employer rates established by statute at December 31, 2014 and 2013, are 9.69 percent and 8.62 percent, respectively. The Hospital employer contributions to KPERS for the years ended December 31, 2014 and 2013, were \$2,103,747 and \$1,845,544, respectively, equal to the statutory required contributions for each year.

NOTE H - EMPLOYEE HEALTH INSURANCE CLAIMS

The Hospital is self-insured for health insurance claims of its employees. The Hospital has reinsured a portion of its risk for such claims. The reinsurance arrangement covers annual claims in excess of \$295,000 for each covered individual. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. The Hospital has retained an insurance company as its agent to process and settle claims. The Hospital reimburses the agent weekly for the amount of claims paid by the agent net of any amounts covered by reinsurance.

The following is a summary of the activity under this arrangement:

	<u>2014</u>	<u>2013</u>
Estimated employee health insurance claims payable at beginning of period	\$ 415,000	\$ 517,000
Provision for employer's share of incurred claims expenses for the period	2,295,790	2,973,803
Employee contributions	1,065,899	849,339
Payments made for claims, expenses, and reinsurance	<u>(3,507,689)</u>	<u>(3,925,142)</u>
Estimated employee health insurance claims payable at end of period	<u>\$ 269,000</u>	<u>\$ 415,000</u>

NEWMAN MEMORIAL COUNTY HOSPITAL  
D/B/A NEWMAN REGIONAL HEALTH  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2014 and 2013

NOTE I - INTEREST EXPENSE

Total interest costs incurred are as follows:

	<u>2014</u>	<u>2013</u>
Total interest incurred	\$ 390,617	\$ 377,788
Amortization of bond premium	<u>(3,335)</u>	<u>(3,763)</u>
Interest expense	<u>\$ 387,282</u>	<u>\$ 374,025</u>

NOTE J - RELATED ORGANIZATIONS

Prior to January 21, 2014, the Hospital contracted for management services, services of certain management personnel, and other services with QHR. Under the agreement, QHR was responsible for daily management and administration of the Hospital, with ultimate control over the assets and operations of the Hospital retained by the Hospital's board. For the years ended December 31, 2014 and 2013, the Hospital expensed \$20,408 and \$407,358, respectively, for management services provided by QHR. The Hospital also reimbursed QHR for salaries, benefits, and expenses of the chief executive officer.

NOTE K - LEASE COMMITMENTS

Space is leased in the hospital and the medical office building to various physicians and other medical professionals. Lease income for the years ended December 31, 2014 and 2013, was \$506,540 and \$517,513 respectively. Future minimum lease payments receivable under these agreements as of December 31, 2014, are as follows:

Year ending December 31,	
2015	\$ 335,364
2016	337,032
2017	73,280
2018	23,881
2019	<u>1,668</u>
	<u>\$ 771,225</u>

The Hospital also leases property and equipment under various operating leases with related rentals charged to operations as incurred. Total rent expense for the years ended December 31, 2014 and 2013, was \$235,829 and \$222,020, respectively. Scheduled minimum rental payments for all noncancellable operating leases with remaining terms of one year or more are not material to the financial statements.



NEWMAN MEMORIAL COUNTY HOSPITAL  
D/B/A NEWMAN REGIONAL HEALTH  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2014 and 2013

NOTE L - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Hospital, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury bills and notes, and the State Treasurer's investment pool. Statutes also require that financial institutions pledge securities with a market value equal to total deposits in excess of F.D.I.C. coverage at any given time and the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, or the Federal Home Loan Bank.

The carrying amount of the Hospital's deposits with financial institutions was \$9,753,037 and the bank balance was \$10,026,538 at December 31, 2014. The bank balance is categorized as follows:

Amount insured by the F.D.I.C., bank deposit guaranty bond, or collateralized with securities held by the Hospital in its name	\$ 500,000
Uncollateralized (collateralized with securities held in safekeeping under joint custody receipt by an authorized depository other than the pledging financial institution's trust department, but not in the Hospital's name)	<u>9,526,538</u>
	<u>\$ 10,026,538</u>

NOTE M - CONCENTRATION OF CREDIT RISK

The Hospital is located in Emporia, Kansas. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows:

	<u>2014</u>	<u>2013</u>
Medicare	39%	38%
Medicaid	15	15
Blue Cross	14	13
Commercial insurance	14	17
Self-pay	<u>18</u>	<u>17</u>
	<u>100%</u>	<u>100%</u>

NEWMAN MEMORIAL COUNTY HOSPITAL  
D/B/A NEWMAN REGIONAL HEALTH  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2014 and 2013

NOTE N - RISK MANAGEMENT

The Hospital is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. The policy provided by the independent insurance carrier provides for umbrella liability in excess of the underlying limits set forth above in the amount of \$12,000,000 per occurrence with an aggregate amount in any policy year of \$12,000,000. All coverage is on a claims-made basis. The above policies were renewed in January 2015 for the policy period from January 1, 2015 to December 31, 2015.

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

NOTE O - RECEIVABLES SOLD WITH RECOURSE

The Hospital has an agreement with a local financial institution under which it sells the Hospital's interest in certain self-pay accounts receivable. Sales under this agreement in 2014 and 2013 amounted to approximately \$256,000 and \$229,000, respectively. At December 31, 2014 and 2013, approximately \$456,000 and \$516,000 of such receivables remained uncollected. The receivables are sold with full recourse, and the Hospital is contingently liable for any uncollected amounts. The Hospital has recorded a liability for receivables sold at December 31, 2014 and 2013, of \$92,000 and \$84,000, respectively.

NEWMAN MEMORIAL COUNTY HOSPITAL  
D/B/A NEWMAN REGIONAL HEALTH  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2014 and 2013

NOTE P - SHORT-TERM INVESTMENTS

The component units' short-term investments are carried at fair market value based on the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The investments are classified as available for sale. The cost and unrealized gains (losses) of the component units' short-term investments are summarized as follows:

	2014			2013		
	Cost	Gross unrealized gain (loss)	Estimated fair value	Cost	Gross unrealized gain (loss)	Estimated fair value
Common stock mutual funds	\$1,125,069	\$ 216,128	\$1,341,197	\$1,059,552	\$ 270,786	\$1,330,338
Common stock	1,422,464	436,346	1,858,810	1,244,319	393,712	1,638,031
Fixed income mutual funds	413,049	(2,774)	410,275	403,166	(3,805)	399,361
U.S. Government and Agency obligations	446,495	2,174	448,669	308,974	53	309,027
Corporate bonds	<u>824,790</u>	<u>(4,544)</u>	<u>820,246</u>	<u>841,331</u>	<u>5,428</u>	<u>846,759</u>
	<u>\$4,231,867</u>	<u>\$ 647,330</u>	<u>\$4,879,197</u>	<u>\$3,857,342</u>	<u>\$ 666,174</u>	<u>\$4,523,516</u>

NOTE Q - INSURANCE RECOVERIES

In February and March 2014, the Hospital's facilities and certain equipment sustained damage when several pipes froze and burst. The Hospital incurred \$412,253 in related salaries, supplies, and other expenses. Insurance proceeds of \$424,076 recovered at December 31, 2014, are included in other operating revenues.